

MEMO

DATE: April 3, 2008

TO: Community, Economic and Human Development Committee (CEHD)

FROM: Elizabeth Delgado, SCAG Staff
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SUBJECT: Venture Capital Investments in the SCAG Region

BACKGROUND:

SCAG is the premier agency for the provision of venture capital data for Southern California.


Since 1995 over \$24.6 billion has been invested in the SCAG region from various venture capital sources. The top 4 industries in terms of venture capital investments received in the SCAG Region are: Media and Entertainment (\$3.9 billion), Software (3.5 billion), Telecommunications (\$2.8 billion), and Medical Devices (\$1.7 billion)

Attached is a macro-level analysis about the state of venture capital investment in the SCAG region.

FISCAL IMPACT:

There is no fiscal impact.

Reviewed by:


Division Manager

Reviewed by:


Department Director

Reviewed by:


Chief Financial Officer

Venture Capital Investment in the SCAG Region

April 2008



SOUTHERN CALIFORNIA
ASSOCIATION of GOVERNMENTS

Overview

The purpose of this brief is to provide a macro-level analysis about the state of venture capital investment in the SCAG region.

Venture capital investment is risk capital provided by professional money managers who invest alongside the management of young companies with the potential to become significant economic contributors¹. These companies are typically not financed through traditional bank financing and require 5-8 years to be publicly launched². Historically, these investments have been used as indicators of emerging and promising industry segments and innovation³. They have also been used as early indicators for future regional and national economic health, as well as one of the predictors of likely future output and employment growth.

According to Global Insight⁴, in 2006 California captured 24 percent of total U.S. jobs generated by companies funded by venture capital investments. While these companies bring jobs and revenue to the economy, only a few of these companies survive. Additionally, it is extremely difficult for business plans to get funded by venture capitalists. For every 100 business plans that come to a venture capital firm for funding, 10 are considered, and only one ends up being funded⁵. Successful companies in the region funded through venture capital firms include DreamWorks and EarthLink, which all created a significant impact on the regional economy.

Despite fluctuations the SCAG region has been able to attract over \$24.6 billion in investments from various venture capital sources since 1995 (Appendix I).

The total venture capital investments have been stable except during the “Irrational Exuberance⁶” period between 1999-2001 (Figure 1-1). While the region’s share of venture capital investments in the US and California has been stable- hovering around 8% of the US, and just under 20% of California- there are large gaps in investments compared to the rest of CA, particularly in areas such as Silicon Valley and San Diego County.

The SCAG region has been able to continue to attract various venture capital investments in the region’s diverse industries. (Figure 1-2)

Figure 1-1
Total Venture Capital Investments for the SCAG Region
1995 Q1 -2007 Q3

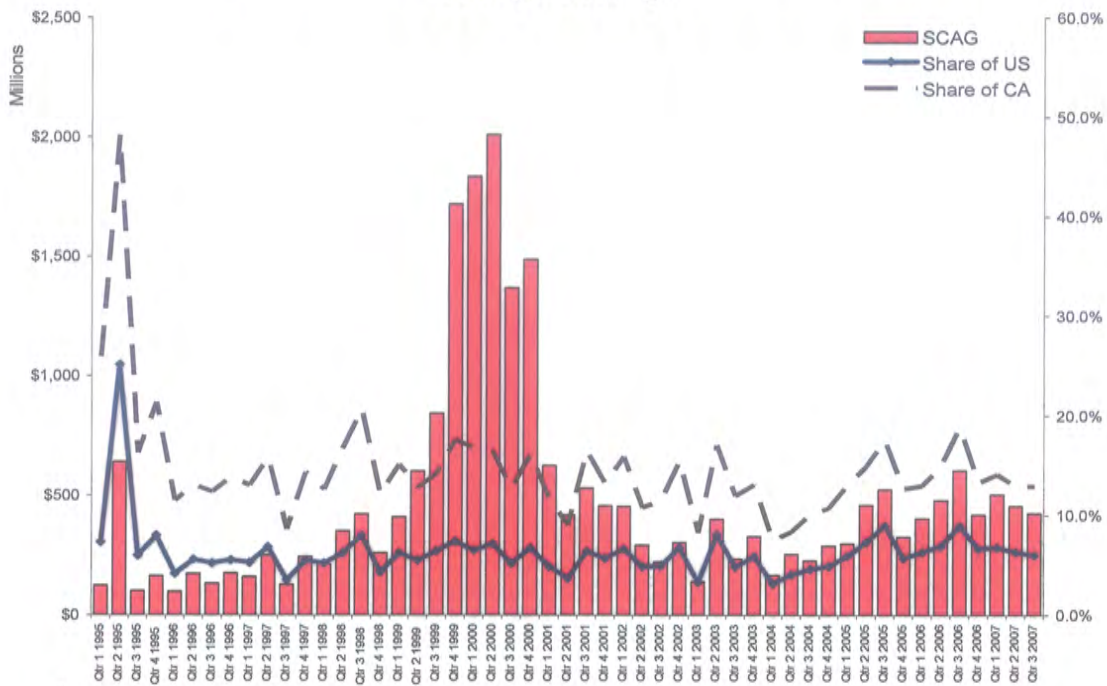
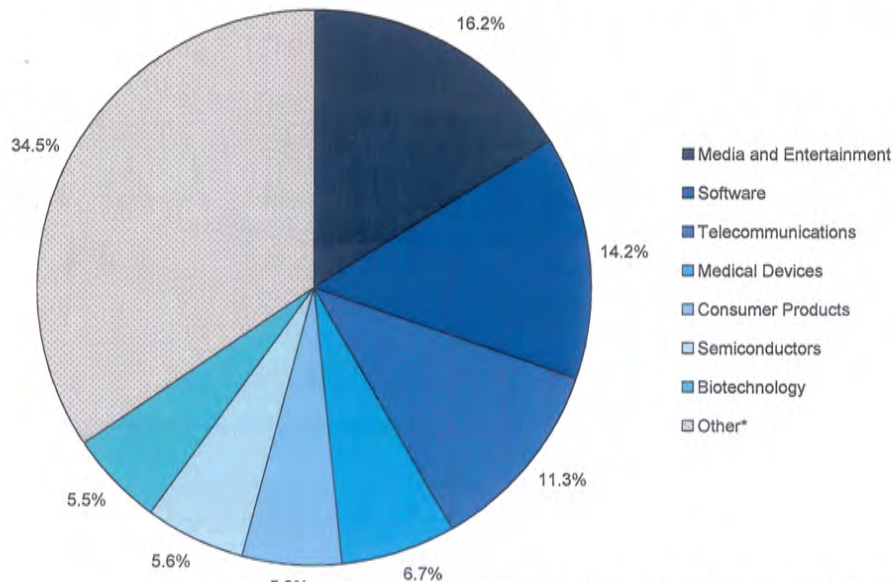


Figure 1-2
Venture Capital Investments by Industry for the SCAG Region
1995 Q1 -2007 Q3¹



¹ Other includes: Retailing, Energy, Financial Services, Networking and Equipment, Business Products, IT Services, Computers and Peripherals, Health Services, Electronics and Other (industry not provided). These industries accounted for 5% or less of the regional total from 1995 Q1- 2007 Q3.

The SCAG region has been an incubator for the nation's leading innovators that received funding during their early development stages such as: DreamWorks Animation, Bristol Farms, EarthLink Networks (now EarthLink Communications), and La Salsa Restaurants amongst others.

These industries have located throughout the region, but there are apparent industry and location clusters (Appendix II).

Industry and location clustering has occurred in Southern Orange County (cities include Aliso Viejo and Irvine), Conejo Corridor- along the 101 Freeway in Ventura County (cities include Thousand Oaks and Camarillo), the San Gabriel Valley (cities include Pasadena and South El Monte), Coastal Areas in Los Angeles County (cities include Santa Monica and El Segundo) as well as emerging clustering near the Ontario airport in San Bernardino County (cities include Ontario and Upland).

Los Angeles County

Los Angeles County saw \$14.6 billion in venture capital investment since 1995. The media and entertainment industry received the largest proportion of funding in Los Angeles County (\$3.4 billion). This is consistent with the large presence of the industry in the county particularly in the Westside Subregion - cities of Santa Monica and Venice, and the South Bay subregion- city of El Segundo. The telecommunications and software industries trailed media and entertainment with \$1.8 billion and \$1.6 billion respectively.

Top 5 Industries in Los Angeles, 1995 Q1 -2007 Q3

Media & Entertainment	\$3.4 billion
Telecommunications	\$1.8 billion
Software	\$1.6 billion
Retailing/ Distribution	\$958 million
Consumer Products/ Services	\$829 million
Other	\$ 5.9 billion

Total Activity in LA County \$14.6 billion

Source: Price-Waterhouse-Coopers/Moneytree; Thompson Venture Economics

Orange County

Orange County has a clustering of medical Equipment and telecommunications companies. The medical equipment and software industries have been drivers of venture capital investments in the county with total revenue streams of \$1.5 billion each. The telecommunications industry ranked second, with \$818 million during the same time period.

Top 5 Industries in Orange County, 1995 Q1 -2007 Q3

Software	\$1.5 billion
Medical Devices	\$1.5 billion
Telecommunications	\$818 million
Consumer Products	\$504 million
Semiconductors	\$483 million
Other	~\$3 billion

Total Activity	\$7.8 billion
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Source: Price-Waterhouse-Coopers/Moneytree; Thompson Venture Economics

Ventura County

In Ventura County, the “Conejo Corridor” has created a historic cluster of venture capital investments, primarily in companies requiring a high skilled workforce. The software and computers/ peripherals industry both received more than \$140 million each. The Conejo Corridor has seen a large concentration of energy and biotechnology industries to cities such Thousand Oaks and Camarillo.

Top 5 Industries in Ventura County, 1995 Q1 -2007 Q3

Software	\$147 million
Computers/ Peripherals	\$142 million
Consumer Products/ Services	\$114 million
Industrial/ Energy	\$97 million
Biotechnology	\$83 million
Other	\$197million

Total Activity	\$645 million
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Source: Price-Waterhouse-Coopers/Moneytree; Thompson Venture Economics

San Bernardino County

San Bernardino has shown increased investment over the given time period. Over \$41.9 million has been invested in industrial/energy and software companies. Most of these investments have been located near the Ontario airport. IT services and semiconductors (\$7.5 million and \$5.8 million respectively) is the third, followed by consumer products/ services with investments just below \$5 million.

Top 5 Industries in San Bernardino, 1995 Q1 -2007 Q3

Industrial/Energy	\$21.9 million
Software	\$20 million
IT Services	\$7.5 million
Semiconductors	\$5.8 million
Consumer Products/Services	\$4.9 million
Other	\$3.8 million

Total Activity	\$63.9 million
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Source: Price-Waterhouse-Coopers/Moneytree; Thompson Venture Economics

Riverside County

Riverside County has shown disparities in investment patterns over the past 12 years. Only three industries have received investments in the county. Software, medical devices and consumer products all cluster around the cities of Riverside, Corona, and Temecula. The software industry received \$15.1 million, while medical devices and equipment received \$4.4 million.

Top 3 Industries in Riverside, 1995 Q1 -2007 Q3

Software	\$15.1 million
Medical Devices	\$4.4 million
Consumer Products/Services	\$296,000

Total Activity	\$19.7 million
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Source: Price-Waterhouse-Coopers/Moneytree; Thompson Venture Economics

Conclusion

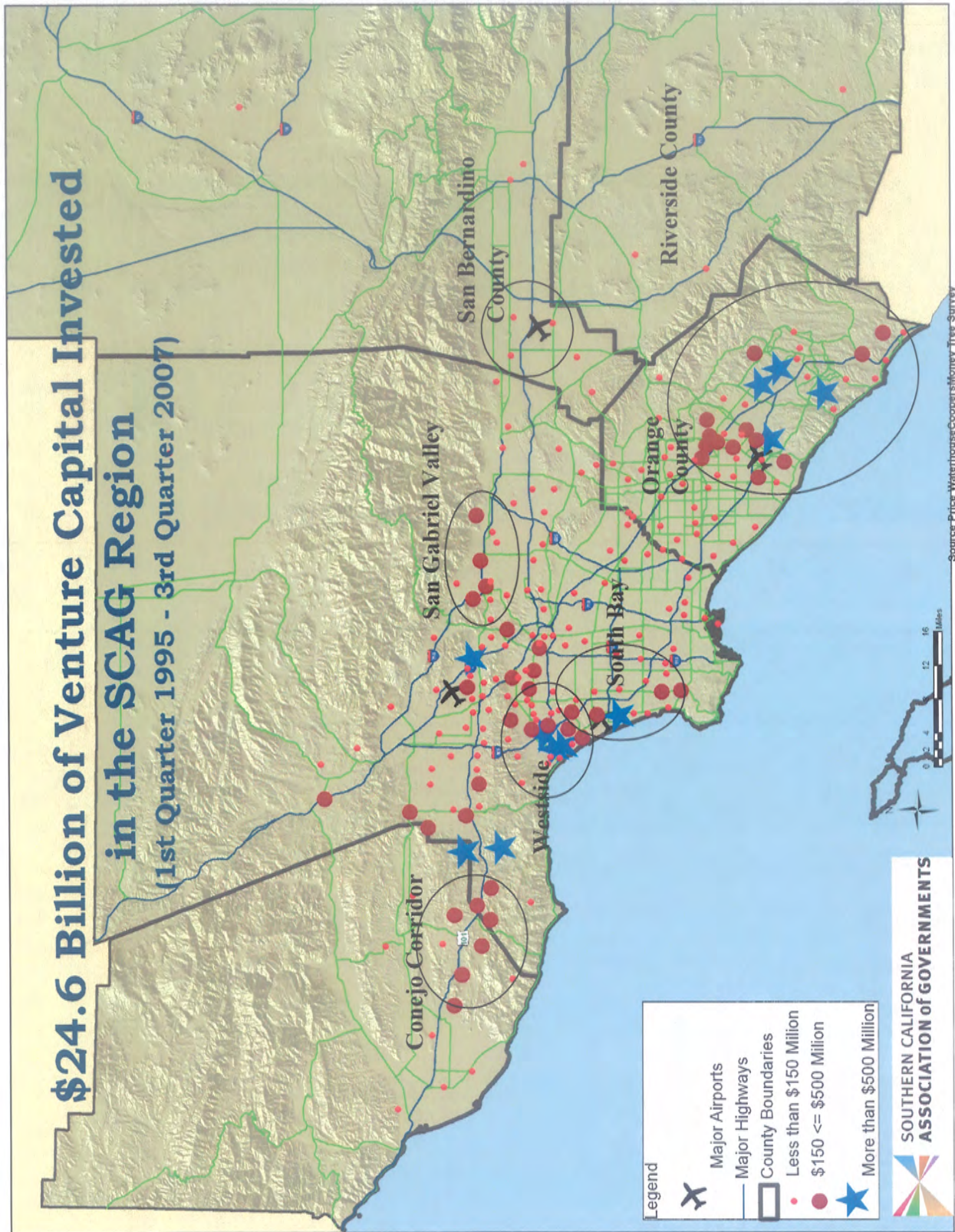
While the region outperformed the nation in venture capital investments, the region lags consistently behind other California regions such as Northern California and San Diego. The region needs to work collaboratively to identify the reasons and strategies to address the gap in investments.

There is an obvious association established in this brief between industry types and location concentrations of venture capital companies. Yet, while we can identify location versus industry clusters, more research is needed to be able to establish causation for such investments.

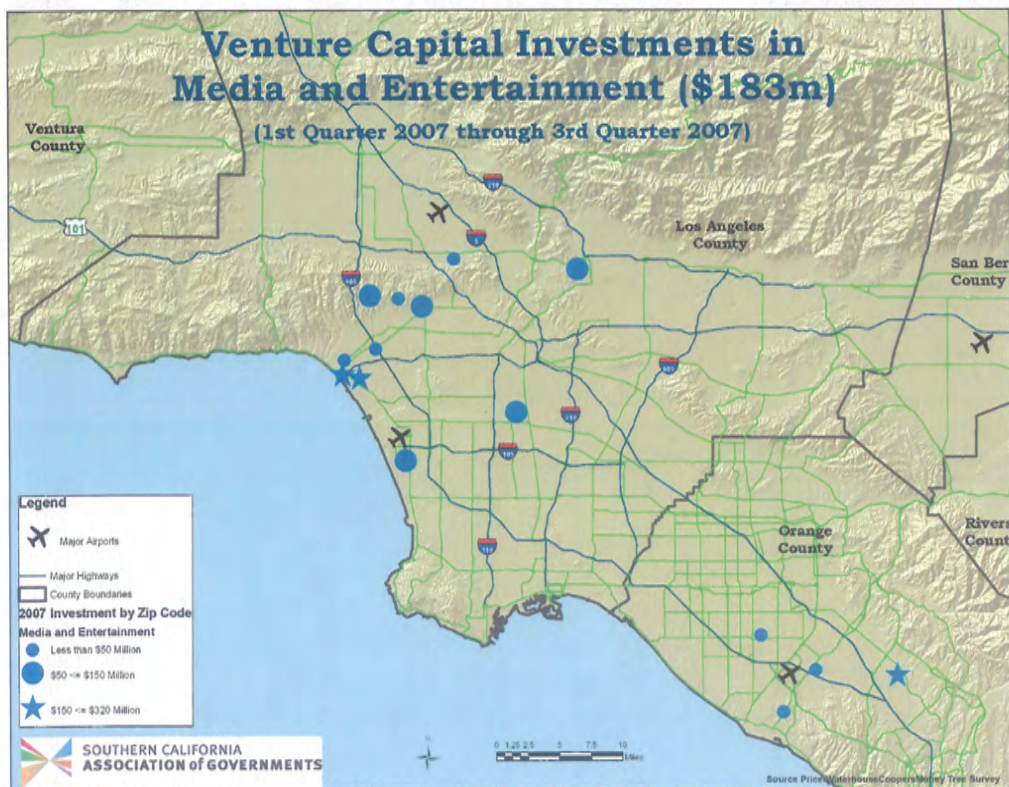
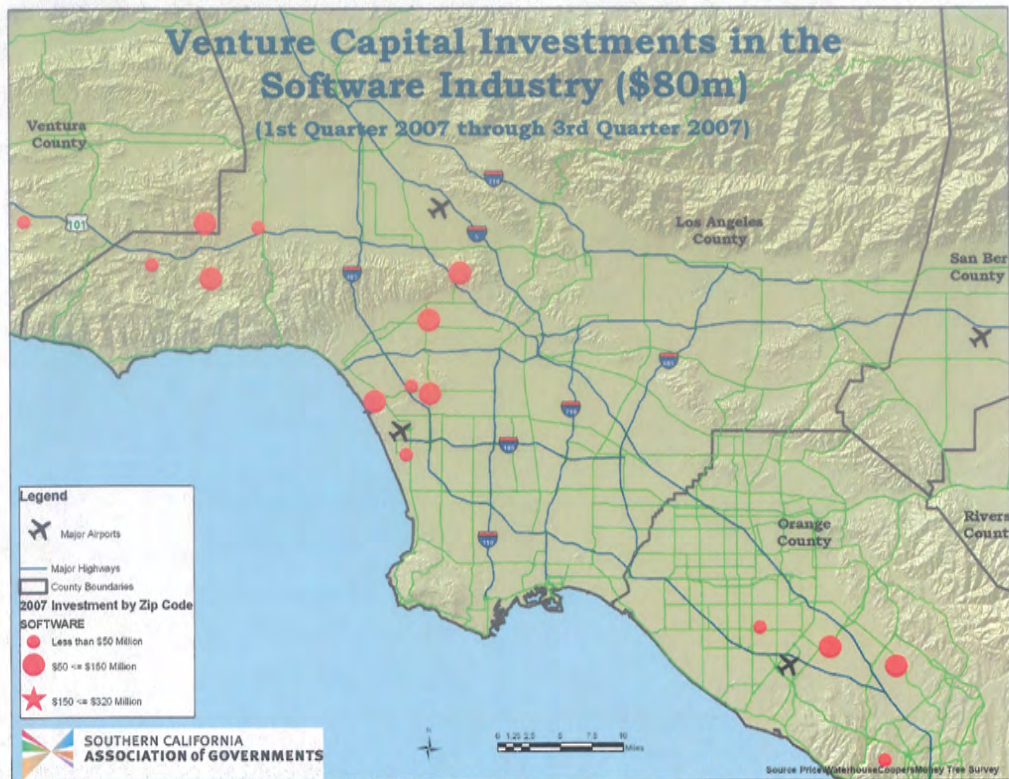
Our next steps are two fold:

- (1) Expansion of Data Acquisition and Analysis
 - (a) Expand the industry based analysis for 1995-2007 (Currently only prepared for 2007 Q1-Q3); and
 - (b) Provide this data free of charge to local jurisdictions on SCAG website
- (2) Economic Development Analysis
 - (a) To link investments to socio-economic conditions such as employment and income, as well as transportation accessibility; and
 - (b) To create a 'check list' for jurisdictions for retaining and recruiting such investment opportunities.

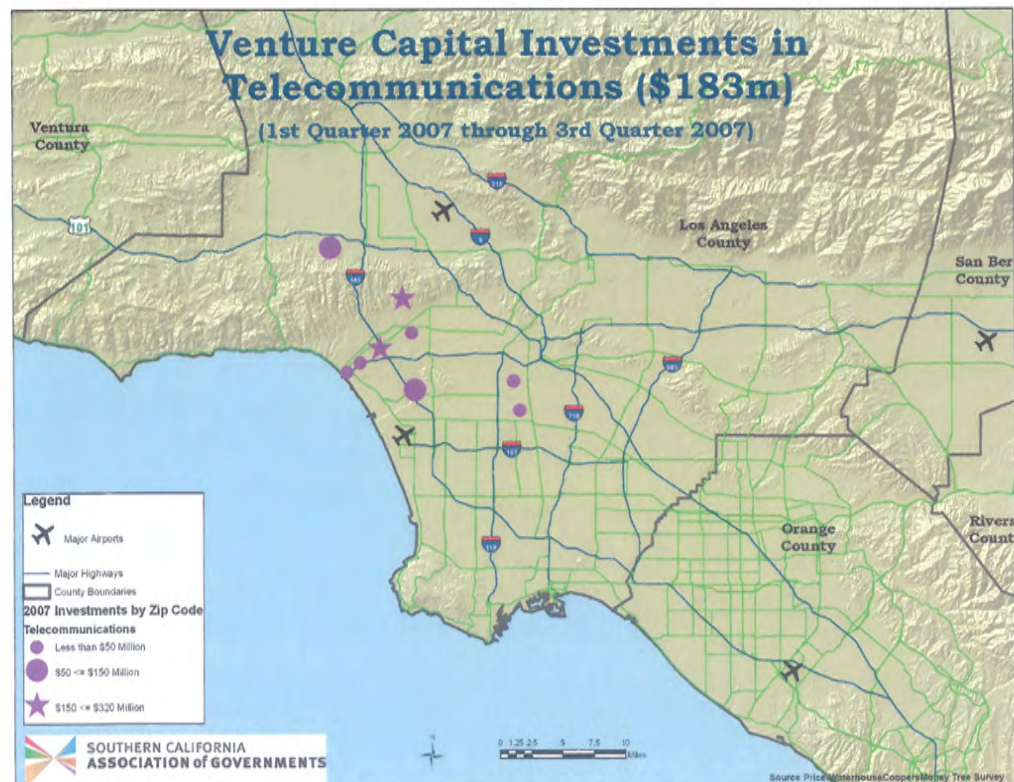
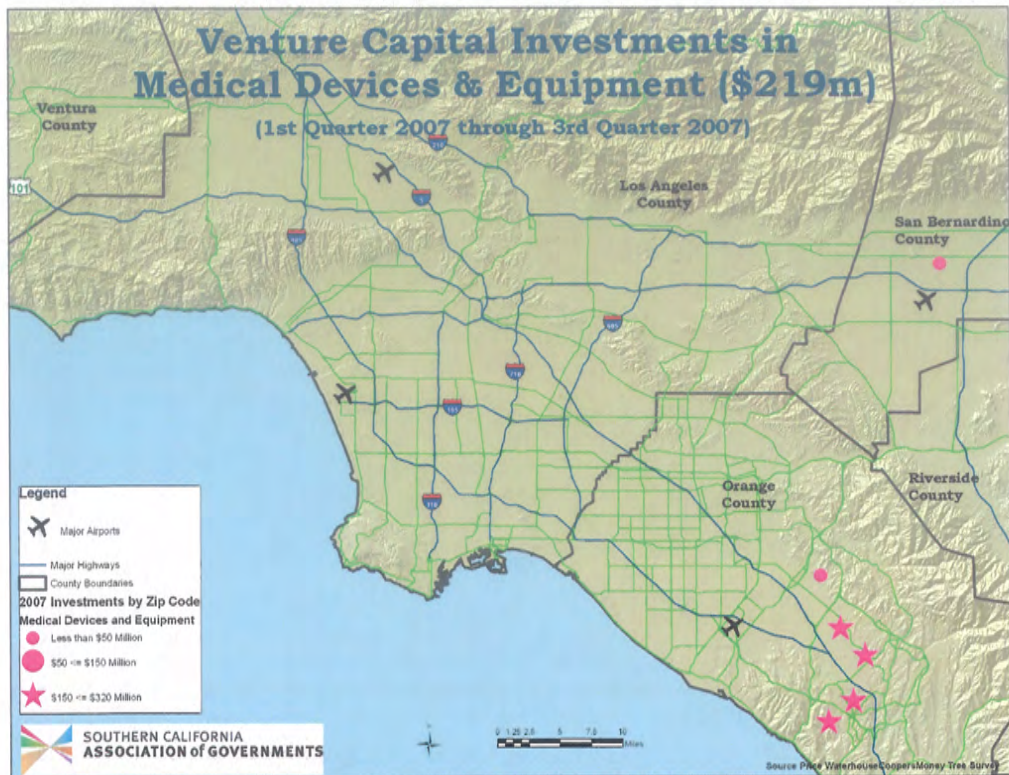
Appendix I



APPENDIX II
Top 4 Industries in the SCAG Region (2007 Q1-Q3)



APPENDIX II (continued)
 Top 4 Industries in the SCAG Region (2007 Q1-Q3)



References

¹ SCAG presentation to the Ventura Council of Governments. "Venture Capital Investment in the Conejo Corridor Area." September 9, 2004.

² Global Insight. "Venture Capital: The Economic Importance of Venture Capital Backed Companies to the U.S. Economy." 2007.

³ SCAG presentation to the Ventura Council of Governments- Bruce Devine. "Venture Capital Investment in the Conejo Corridor Area." September 9, 2004.

⁴ Global Insight. "Venture Capital: The Economic Importance of Venture Capital Backed Companies to the U.S. Economy." 2007.

⁵ Ibid.

⁶ Irrational Exuberance refers to a phrase used by former Federal Reserve Board Chairman Alan Greenspan during the economic recession that followed the stock market collapse of 2000.

Venture Capital Investments in the SCAG Region

Presentation to the
Community, Economic and Human Development Committee
April 2008

Elizabeth Delgado, Associate Regional Planner
Frank Wen, Growth Forecasting Program Manager
SCAG Community Development Staff



Definition & Purpose

What is Venture Capital?

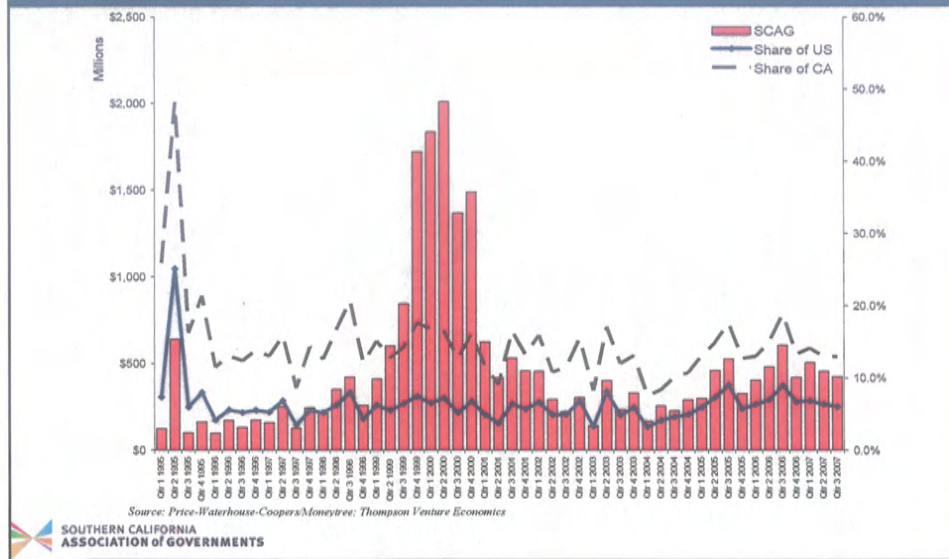
- Risk capital provided by professional money managers investing in companies with potential to become significant economic contributors.
- Key source of revenue for start-up companies

Importance to the Economy

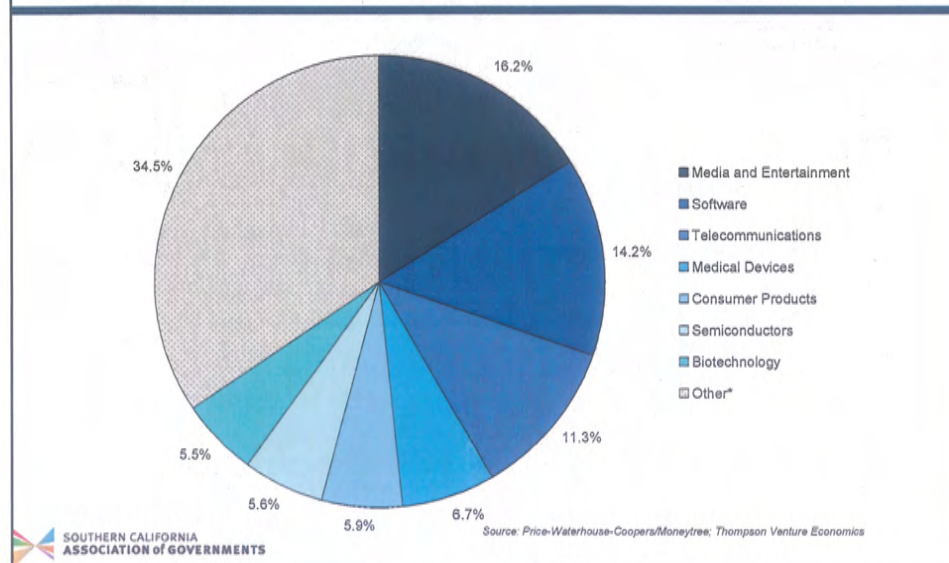
Investments have been used as indicators of:

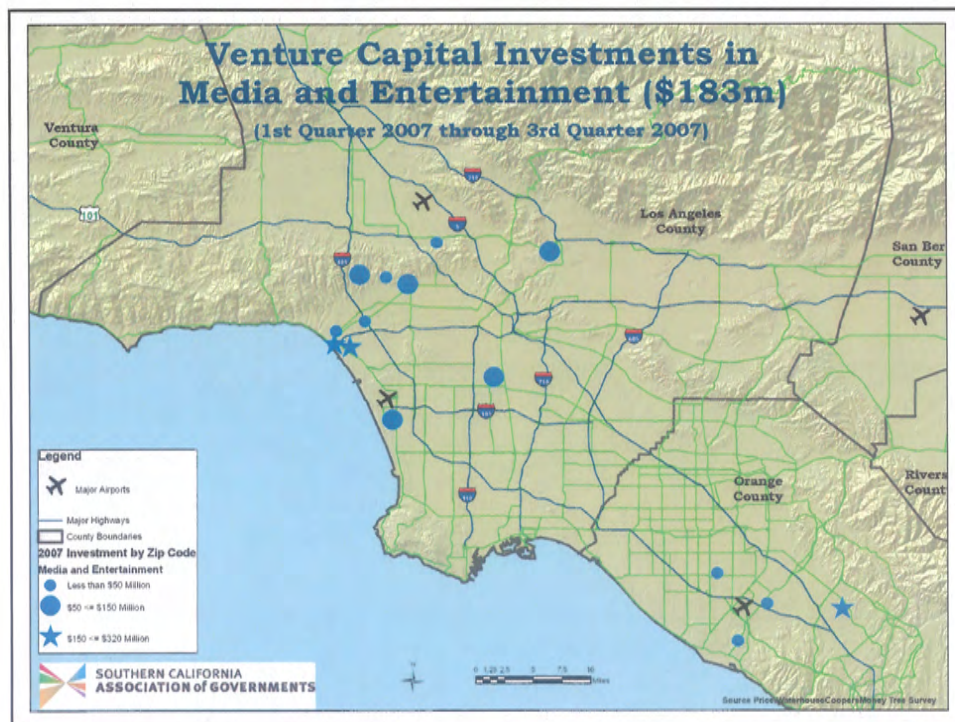
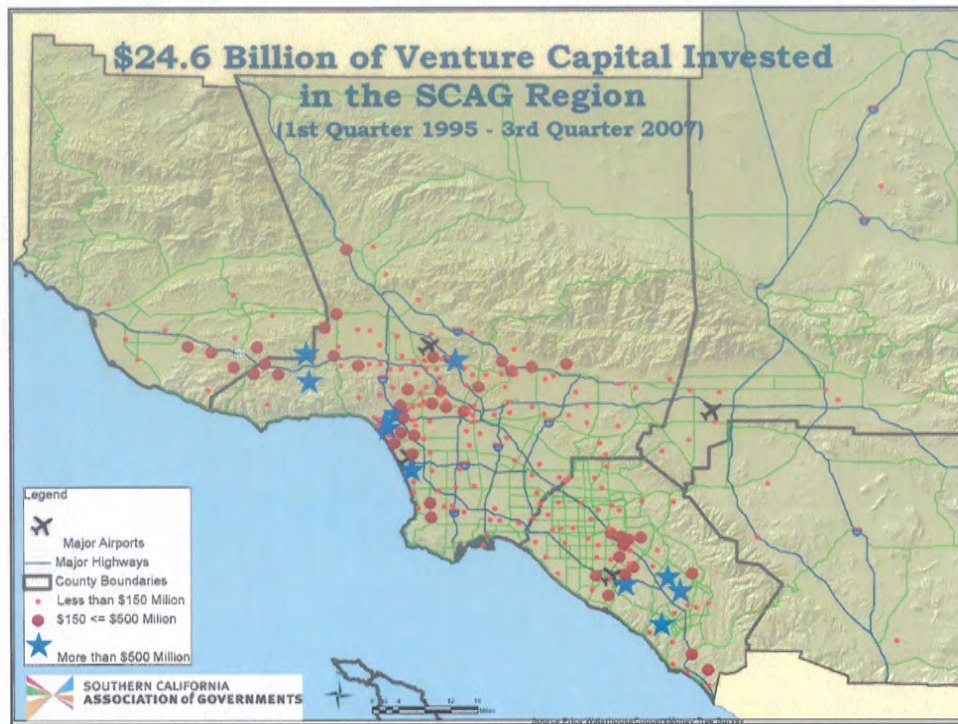
- emerging and promising industry segments & innovation
- Future regional and national economic health
- Likely future output & employment

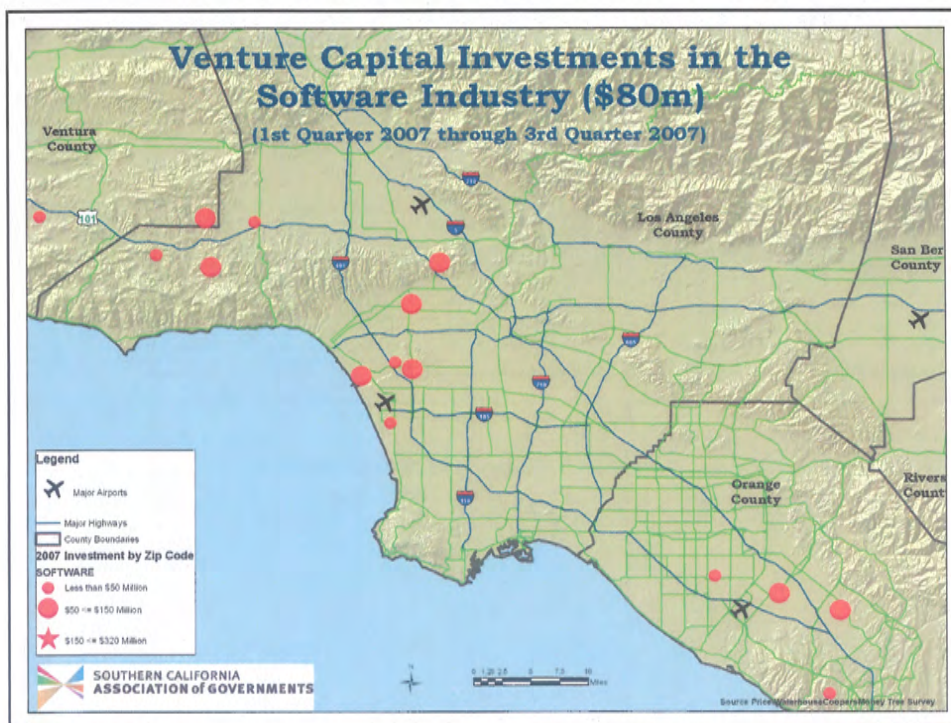
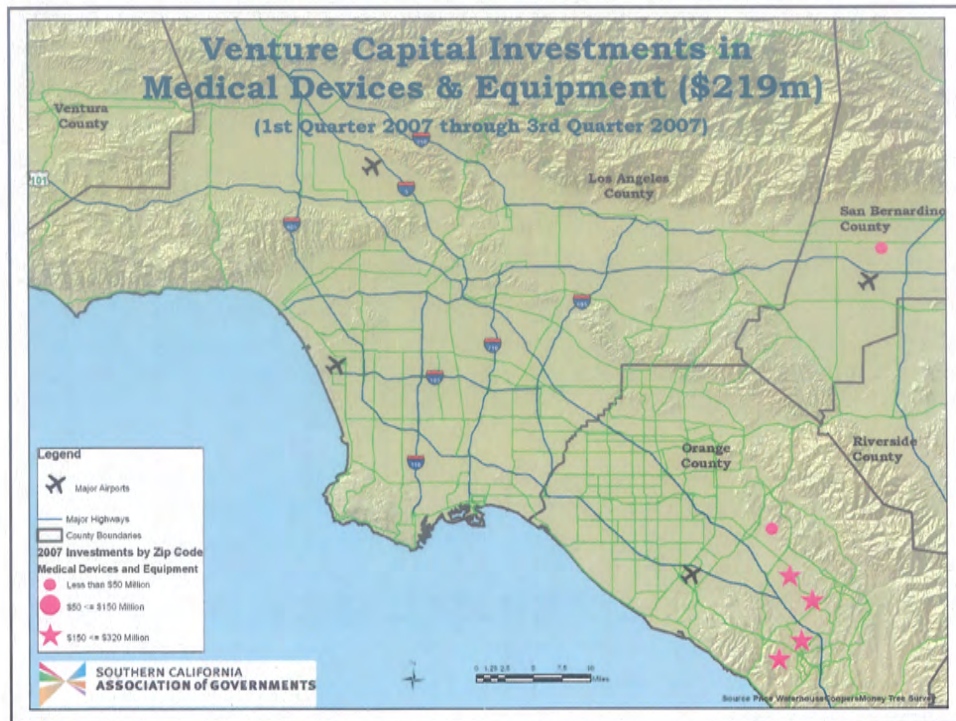
Total Venture Capital Investments for the SCAG Region 1995-2007

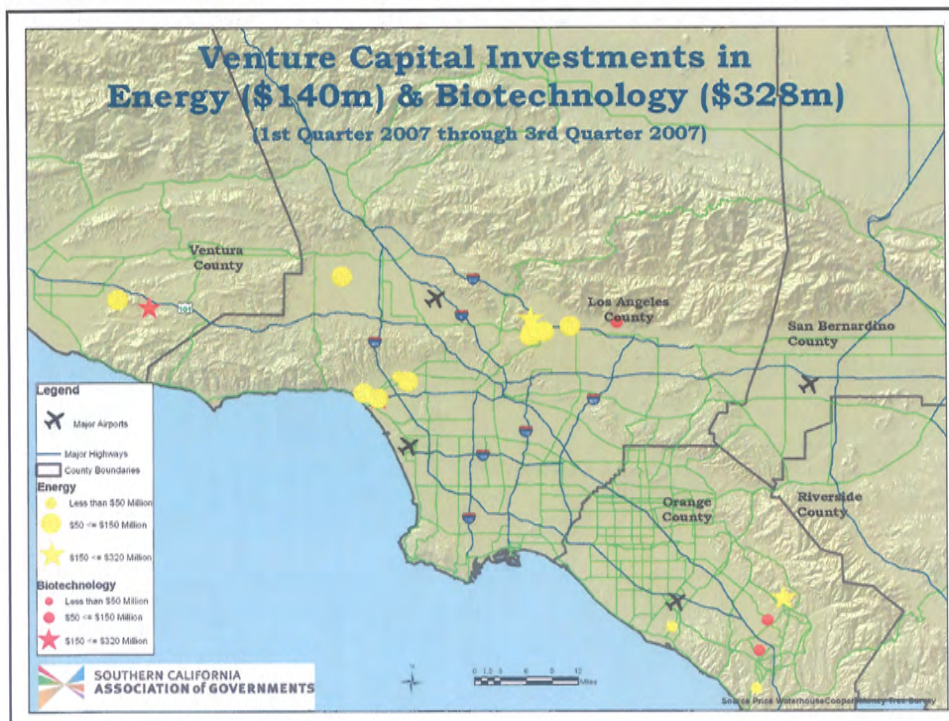
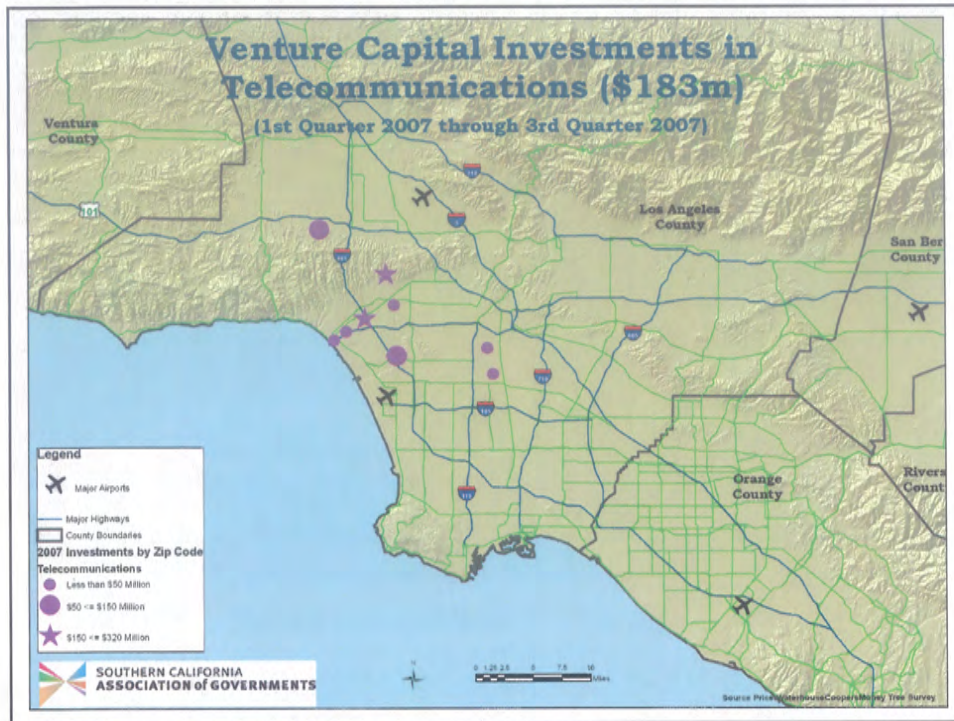


Total Venture Capital Investments by Industry for the SCAG Region 1995-2007









Thank you Questions/ Comments?

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